

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
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SP-02 LAB-04 SIL-01 OMB-01 PA-02 NSC-05 SS-15
STR-07 CEA-01 /105 W
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R 251200Z MAY 78
FM AMCONSUL TURIN
TO SECSTATE WASHDC 0880
AMEMBASSY ROME
INFO AMCONSUL FLORENCE UNN
AMCONSUL GENOA UNN
AMCONSUL MILAN UNN
AMCONSUL NAPLES UNN
AMCONSUL PALERMO UNN
AMCONSUL TRIESTE UNN

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E.O. 11652: N/A
TAGS: ECON, ALB, IT
SUBJ: LEADING ECONOMIST SEES HOPE FOR ITALIAN ECONOMY
DURING "WHITE SEMESTER"

1. SUMMARY. A LEADING TURIN AND NATIONALLY PROMINENT ITALIAN ECONOMIST TAKES A SOMEWHAT OPTIMISTIC VIEW OF THE ITALIAN ECONOMY DURING THE NEXT SIX MONTHS. MARIO DEAGLIO BASES THIS CONCLUSION ON: A) GREATER POLITICAL AND LABOR UNION RECOGNITION OF ITALY'S SOCIO-ECONOMIC AND POLITICAL PROBLEMS (IMPLYING BETTER KNOWLEDGE AND RECOGNITION WILL RESULT IN POSITIVE GOI EFFORTS)# AND B) COMMUNIST PARTY OF ITALY (PCI) INVOLVEMENT, NOW MORE THAN EVER IN THE GOVERNMENT PROCESS# CONTRARY TO THE PCI ROLE IN PREVIOUS BUSINESS CYCLE UPTURNS, THE PCI NOW WILL HAVE TO PUT ITS CREDIBILITY ON THE LINE AND FOR ITS OWN POLITICAL FUTURE IT WILL HAVE TO SUPPORT GOI EFFORTS
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TO PUT ITALY ON A STABLE ECONOMIC GROWTH PATTERN DURING THE NEXT SIX MONTHS. WHILE DEAGLIO CONCLUDES THAT A FAILURE AT THE FORTHCOMING ECONOMIC SUMMIT OR LACK OF RECOGNITION OF ITALY'S "SPECIAL CASE" IN CONCEDED LOANS TO ITALY WILL OVERTURN HIS FORECASTS, HE REMAINS OPTIMISTIC THAT ITALY NOW PERHAPS HAS A UNIQUE OPPORTUNITY TO PUT ITS ECONOMY - AND THE FABRIC OF ITALIAN SOCIETY -

ON THE RIGHT TRACK. END SUMMARY.

2. TURIN UNIVERSITY ASSOCIATE ECONOMICS PROFESSOR MARIO DEAGLIO (AGE 35) IS ONE OF ITALY'S LEADING MACRO-ECONOMIC COMMENTATORS# HE ALSO IS ABLE TO PORTRAY BROAD SOCIO-POLITICAL TRENDS IN HIS PROLIFIC WRITING. WE WERE THEREFORE STRUCK BY HIS LONG, FRONT-PAGE, SOMEWHAT OPTIMISTIC ARTICLE IN MAY 24 LA STAMPA, ITALY'S SECOND MOST IMPORTANT NATIONAL DAILY. ALTHOUGH DEAGLIO HAS ONLY VISITED THE U.S. ONCE, IN NOVEMBER 1976 AS IV GRANTEE, HE FOLLOWS AMERICAN ECONOMIC DEVELOPMENTS CLOSELY# HE OFTYEN TRAVELS WITHIN EUROPE AND ALSO WRITES FOR SEVERAL NON-ITALIAN PUBLICATIONS IN EUROPE, INCLUDING THE ECONOMIST. HE THEREFORE HAS THE ABILITY TO TAKE AN INTERNATIONAL AND LESS PROVINCIAL VIEW OF ITALY, ALONG WITH SUPPLYING HIS OWN CONSIDERABLE EXPERTISE ON HIS COUNTRY.

3. IT IS SIGNIFICANT THAT DEAGLIO, WHO USUALLY IS NOT GIVEN TO FLIGHTS OF OPTIMISM, CONCLUDES HIS ARTICLE REVIEWING THE ITALIAN ECONOMY TODAY WITH AN EXPRESSION OF HOPE FOR THE NEXT SIX MONTHS. HE BORROWS FROM ITALIAN POLITICAL JARGON AND ENTITLES HIS PIECE, "A WHITE SEMESTER FOR THE ECONOMY" (A REFERENCE TO THE SIX-MONTH PERIOD BEGINNING THIS JUNE, IN ADVANCE OF THE PRESIDENTIAL ELECTION IN DECEMBER, WHEN THE PRESIDENT CANNOT DISSOLVE PARLIAMENT).

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4. DEAGLIO OPENS BY EMPHASIZING THAT BOTH ITALIAN POLITICAL LIFE AND THE ITALIAN ECONOMY ARE NOW ENTERING AN HISTORICALLY IMPORTANT PERIOD. HE NOTES THAT ECONOMIC PRODUCTION HAS RESUMED ON A POSITIVE COURSE, FOR WHICH THE FIRST SIGNS SHOWED THEMSELVES SEVERAL MONTHS AGO. DEAGLIO CAUTIONS THAT WHILE THIS EXPANSION MAY EXHAUST ITSELF IN A SHORT TIME, THERE IS ALSO THE POSSIBILITY TO PASS FROM THE STOP-GO TREND OF THE PAST AND MOVE ONTO STABLE ECONOMIC GROWTH.

5. HE RECALLS THAT SIMILAR CIRCUMSTANCES OCCURRED IN 1971-72 AND 1973-74, BUT BOTH TIMES, HOPES FOR CONTINUED EXPANSION WERE DASHED BY INFLATION, LIRA DEVALUATION AND SUBSEQUENT RECESSION, AUSTERITY AND UNEMPLOYMENT. DEAGLIO LIKENS THE ITALIAN ECONOMY TO AN OLD CAR WHICH JUST AS SOON AS THE ENGINE BEGINS TO RUN MORE RAPIDLY, THE WATER BOILS AND THE CAR MUST BE STOPPED FOR A LENGTHY PERIOD BEFORE IT CAN BE RESTARTED.

6. DEAGLIO BASES HIS HOPE THAT CYCLE WILL NOT REPEAT ITSELF BY 1979 MAINLY ON WHAT HE IDENTIFIES AS A GREATER RECOGNITION THAT ITALY NOW HAS OF ITS PROBLEMS,PARTICULARLY

WITHIN POLITICAL AND UNION LEADERSHIP WHERE HE SEES MORE THAN JUST THE USUAL DEVELOPMENT OF RATIONAL ECONOMIC POLICY -- A GROWING RECOGNITION OF THE NEED TO STRENGTHEN GOVERNMENT INSTITUTIONS WITH AN AIM TOWARD SOCIO-POLITICAL STABILITY IN ITALY.

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... IN ITALY.

7. THE ITALIAN GOVERNMENT NOW HAS A MAXIMUM OF SIX MONTHS IN WHICH TO TRANSLATE THIS NEW SENSE OF RECOGNITION INTO CONCRETE ECONOMIC MEASURES, SAYS DEAGLIO, AND THIS PERIOD FALLS AT THE SAME TIME AS THE POLITICAL "WHITE SEMESTER." PROBLEMS TO BE SOLVED BY THE GOVERNMENT DURING THIS PERIOD HAVE BEEN WELL IDENTIFIED# HE CITES CONTROL OF THE PUBLIC DEFICIT AND WAGE LEVELS, IMPOSITION OF AN INDUSTRIAL POLICY WITH WELL-SET GOALS AND PRIORITIES AND MEASURES TO ENCOURAGE A MOVE IN SPENDING FROM CONSUMPTION TOWARD INVESTMENT.

8. PREMIER ANDREOTTI'S SUCCESS IN MEETING THESE CHALLENGES, IN DEAGLIO'S VIEW, WILL BE THE MEASURE BY WHICH ANDREOTTI WILL BE JUDGED.

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9. DEAGLIO BELIEVES THERE IS ANOTHER POSITIVE FACTOR NOW IN EVIDENCE WHICH WAS NOT THE CASE IN THE PREVIOUSLY CITED CYCLES: PERHAPS FOR THE FIRST TIME THE COMMUNIST PARTY OF ITALY (PCI) IS NOW MORE THAN EVER CLOSELY INVOLVED IN THE GOVERNMENTAL PROCESS AND HAS A DIRECT INTEREST, AN IMMEDIATE AND URGENT INTEREST, IN MOVING FROM NEGATIVE RESULTS IN BUSINESS CYCLES TO STABLE AND POSITIVE DEVELOPMENT. DEAGLIO ADDS THAT PCI LEADERSHIP, IN THESE CURRENT TIMES, IS LAYING ITS CREDIBILITY WITH THE WORKING CLASS ON THE LINE AND IS GAMBLING THAT THERE WILL NOT BE A NEW RECESSION WITHIN SIX MONTHS. THE PCI BASE, DEAGLIO CONCLUDES, WOULD NOT SUPPORT THE APPROACH OF THE PCI TO GOVERNMENT POWER WITH THE WORKERS' SACRIFICES THAT NECESSARY ECONOMIC DECISIONS WILL ENTAIL UNLESS THERE IS AT LEAST SOME SMALL GROWTH IN EMPLOYMENT LEVELS.

10.. AS A FINAL FACTOR, IN ADDITION TO THE TWO, NEW POSITIVE ELEMENTS NOTED ABOVE, DEAGLIO TURNS TO THE INTERNATIONAL ECONOMIC SCENE: A) A FAILURE AT THE FORTHCOMING ECONOMIC SUMMIT MEETING WOULD RESULT IN WORLD ECONOMIC STAGNATION WHICH WOULD HAVE GRAVE REPERCUSSIONS ON ITALIAN EXPORTS# AND B) WORSE YET WOULD BE A FOREIGN VIEW OF THE ITALIAN SITUATION ONLY IN LIGHT OF ORTHODOX ECONOMIC JUDGMENTS IN CONCEDING LOANS TO ITALY WITHOUT RECOGNITION OF ITALY'S "SPECIAL CASE." WITH THE HOPE THAT THESE TWO FACTORS DO NO COME INTO PLAY, DEAGLIO BELIEVES THAT PROSPECTS TODAY IN ITALY ARE MORE FAVORABLE THAN IN THE PAST SIMILAR PERIODS AND THAT ITALY CAN PUT ITSELF ON THE RIGHT TRACK.
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